

Suggested Biomass Energy Incentives in Montana

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1. Alternative Energy Investment Tax Credit revisions: Montana's Alternative Energy Systems 35% investment tax credit applies only to the tax liability (i.e., income) created by the investment in the renewable energy system. For example, if a mill installs a system for electrical generation from biomass, and sells a portion of that energy, only the income from selling the energy would be subject to the 35% tax credit on the investment in the renewable energy generation system. In most cases, this is not much of an incentive, because biomass energy investments do not generate high profits or cash flow. Many mills in the state are interested in developing capacity for electrical generation from biomass, primarily for their own energy needs, and cannot take full advantage of the current investment tax credit because there would be little or no taxable income generated by the investment.

In contrast, Oregon offers a 50% investment tax credit for renewable energy installations, which is given over 5 years on a 10% per year basis. Importantly, it can be applied to all income by a taxpayer on a consolidated return, not just the income generated by the investment. In addition, entities installing systems that are not able to take advantage of the credit (due to nonprofit status or lack of tax liability) can sell that credit at a discount to other taxpayers. In some cases, the capacity for monetizing this tax credit has been used as equity for borrowing the capital for the original investment. This makes the credit a very powerful tool. Montana's 35% would not necessarily need to be modified to 50%, but allowing the credit to apply to all income, or to be sold at a discount, would make the credit much more powerful.

2. Income tax credit for removing and processing biomass for energy: Oregon's last legislature (HB2210) enacted a \$10 per green ton state income tax credit for the removal and use for energy of material directly from the woods. The credit is granted to the entity that removes and processes the material into a form usable for energy. Similar to the renewable energy investment tax credit, this credit can be sold if the recipient is not able to use it.

At the Federal level, a \$20 per ton transportation subsidy for biomass fuel was authorized in the 2005 Energy Policy Act, but has never been funded.

Montana could enact a similar tax credit for removing and processing biomass to be used for heat or energy. Providing such a credit to the entities who remove the biomass, rather than to end users, would be more effective at getting more material used rather than burned in place, wasting its heat and energy.

3. Renewable Portfolio Standard modifications: Montana's Renewable Portfolio Standard is relatively weak due to the cost cap provisions in MCA 69-3-2007. For public

utilities that have restructured pursuant to Title 69 ch. 8, (i.e., Northwestern Energy), the renewable electricity must be cost-competitive with other electricity suppliers in order to make the purchase of renewables obligatory. Montana's rural electric cooperatives are not covered by the renewable portfolio standard. Strengthening the RPS for electrical generation by altering the cost caps is recommended (recognizing that some cost caps are probably needed). Investigating the impact of applying the RPS to rural electric cooperatives is also recommended. Several other states that include rural electric coops in their RPSs would be good sources for this information (examples include Arizona, Colorado, and New Mexico).

At least one state has mandated that a percentage of the heat used in that state be derived from renewable fuels, in addition to the RPS for electricity. Heat is the most valuable and efficiently derived form of energy from biomass, and an RPS for heat would be beneficial to expanding biomass utilization to replace fossil fuels and reduce greenhouse gas emissions.